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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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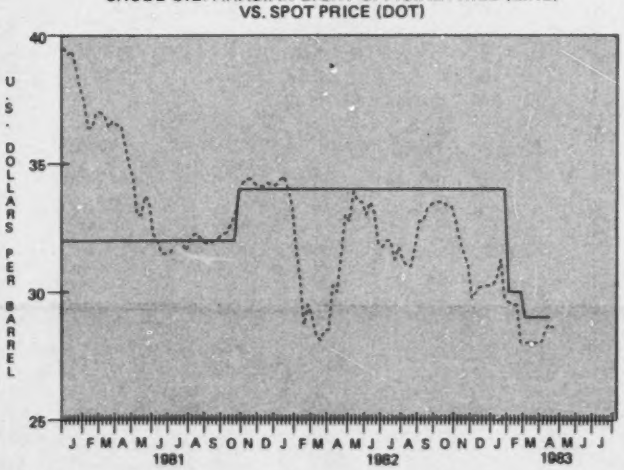
The Recent Firming Of Oil Prices . . .

Since March 14, when the OPEC producers dropped their contract prices for crude oil by an average of $5 per barrel, the press has moved oil price developments to the back pages. Thus, barely noticed, spot oil prices—an indicator of the perceived supply/demand balance on world markets—have begun inching up (see chart), bumping up against the contract prices for some grades of oil and even surpassing them for other grades. Oil companies have included these increases in their prices, raising wholesale prices for most products, including motor gasoline, home heating oil and residual oil. However, this uptick does not appear to signal the beginning of another upward spiral in retail energy prices—at least not in the near term.

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE) VS. SPOT PRICE (DOT)



The rise in spot prices occurred because of the reported discipline by the OPEC nations in adhering to their production quotas, combined with the expectations of stepped-up final demand resulting from improving economic conditions in the major industrial nations. But while production cutbacks will, in fact, tighten supplies somewhat later on this year, demand for petroleum products is expected to fall once again in 1983, as consumers and industry alike continue their conservation efforts begun in recent years.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,026		581		15.5
1982(e)	9,047		570		15.9

Sources: Federal Highway Administration; MHT estimates

. . . Will Not Fuel Inflation . . .

According to recent reports, the OPEC producers have been adhering to their commitments to limit production. Thanks to sharply curtailed output by Saudi Arabia and the other Persian Gulf states, OPEC's exports were running at an estimated 15½ million barrels per day (mbd) in the first quarter—well below the imposed 17½ mbd ceiling—and are probably even lower now.

However, the consuming countries drew down inventories by 4½ million barrels daily during 1983's first quarter. That more than made up for the decline in production. But it seems that the oil companies may not be able to sell much more from inventory and hold off much longer in buying crude oil. Therefore, inventory liquidation is expected to slow soon and demand for OPEC oil may soon rise to the 17½ mbd ceiling.

Although the pace of business has begun to pick up, worldwide petroleum consumption continues to decline. The International Energy Agency reports that demand by the major industrialized countries fell to 32.8 mbd during 1983's first quarter—seven per cent below the level of a year ago. In the U.S. alone, the decline was four per cent, year-over-year.

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In 1982, U.S. petroleum demand averaged slightly more than 15 mbd, well below the record 18.8 mbd consumed in 1978 and about 12 per cent below the volume consumed in 1973. Moreover, whereas petroleum had accounted for close to one-half of U.S. energy requirements in 1973, by last year it had dropped to about 43 per cent. Contributing to the decline in the relative importance of oil was a reduction in residual oil demand by electric utilities: coal and hydropower are now generating a much larger proportion of the nation's electricity.

. . . Since Supplies . . .

Perhaps the most significant conservation efforts, however, have been made by both the American motorists and the automobile industry. For despite an almost 25 per cent rise in the number of cars in use between 1973 and 1982 and only a nine per cent drop in the average number of miles traveled per car during this period, consumption of motor gasoline in the U.S. was actually two per cent lower last year than it was in 1973. This is particularly important since gasoline consumption is the single largest component of total U.S. petroleum use—representing more than 40 per cent.

This shows that since 1973 there has been a substantial improvement in fuel efficiency of the typical American automobile. As shown in the table on the first page, the average number of miles traveled per

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/13/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.488	+ .177	+10.885
Loans to Depository Inst.	.585	– 1.182	– .750
Float	2.333	+ .632	– 1.202
Total Reserve Bank Credit	157.650	– .259	+ 8.956
Treasury Deposits with Federal Reserve Banks	3.009	– .852	– .617
Currency Outside Banks	139.524	+ .968	+11.176
Member Bank Reserves:			
Required	37.180	– .137	– 1.199
Excess (Deficiency)	.613	– .115	+ .295
Total Reserves Held	37.793	– .252	– .904
Net Free Reserves	.453	– 1.084	– 1.082
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.719	+ .605	+19.959
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	496.1	+ 15.1‡	+ 10.6‡
M2 (February '83)	2,066.1	+ 21.8	+ 13.0
M3 (February '83)	2,443.4	+ 11.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/22/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.00%	8.10%
* Federal Agencies	8.50	8.45	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	8.80	8.98	9.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.60	8.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	May	8.45%
15- 29 days	8.50	Jun.	8.45
30- 59 days	8.50	Jul.	8.45
60- 89 days	8.50	Aug.	8.45
90-179 days	8.50	Sep.	8.45
180-239 days	8.50	Oct.	8.40
240-270 days	8.50		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	8.55%
30- 89 days	8.50%		
90-120 days	8.38		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83n	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83n	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83n	3.1	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Mar '83n	1.2%	– 2.4%	0.0%
Change in Producer Prices*	Mar '83	– 1.2%	1.2%	– 3.6%
Civilian Employment (Thousands of Persons) †	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force †	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Mar '83n	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100) †	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Mar '83	139.1	137.6	141.7
Net Change in Consumer Installment Credit †	Feb '83	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Feb '83	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83n	1,611	1,775	920
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Feb '83	$ 508.1	$ 507.6	$ 522.0
Total Business Sales †	Feb '83	$ 339.1	$ 343.7	$ 343.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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gallon of fuel consumed is estimated to have increased by more than 20 per cent between 1973 and 1982. Even more remarkable is the fact that this has occurred during a period of extremely sluggish new car sales since 1979– a situation which undoubtedly slowed the shift from older vehicles to more fuel-efficient models. Therefore, as the recovery picks up steam, the expected rebound in auto sales and the consequent rise in average fuel efficiency of cars utilized will dampen gasoline consumption further even if buyers lean toward purchases of larger cars. Further, with the imposition of the new five cent a gallon excise tax and the recent price hikes at the pump, the cost of a gallon of gasoline has returned to the levels of last December–high enough to discourage motorists from doing significantly more driving.

. . . Remain Plentiful

Home heating oil use is less predictable since it is determined, to a large extent, by the weather. However, a return to the energy profligacy of the pre-1973 years is hardly likely. Homeowners have made their homes more energy efficient, installing extra insulation, weather-stripping, storm windows, etc. They have lowered their thermostats and probably have gotten used to the cooler temperatures in their homes. Thousands of homeowners have switched from oil burning furnaces to natural gas.

(continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/6/83)	103,698	– 3,374	–28,072
New York City (4/6/83)	27,308	– 1,074	– 6,207
Commercial Paper (4/6/83)	165,985	– 1,687	– 2,492*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/83)	217,482	+ 874	+12,204
New York City (4/6/83)	59,628	+ 333	+ 2,412

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/83)	505,547	+ 2,481	+22,858
New York City (4/6/83)	118,202	+ 1,192	+ 6,946

Financial Markets

	Friday 4/22/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	– .07	– 4.26
180-Day Bills†	8.60	– .03	– 4.36
Longest Bills†	8.85	– .02	– 4.57
Recent Issues:			
9 1/2s 4/30/85 (When Issued)	9.50	NA	
10 1/4s 3/31/87	9.85	+ .02	
10 7/8s 2/15/93	10.33	+ .05	
10 3/8s 11/15/12	10.45	+ .11	
Municipals:			
Bond Buyer–20 Bond Index* (4/21/83)	9.09%	+ .05	– 3.20
Blue List Total ($ Million)	$1,326	+$ 215	+ $ 570
30-Day Visible Supply ($ Million)	$4,121	+$ 785	+ $1,551
Total	$5,447	+$1,000	+ $2,121
Corporates:			
Moody's Aa Composite (4/21/83)	12.05%	+ .06	– 2.74
30-Day Visible Supply ($ Million)	$ 925	+$ 198	– $ 213
Stocks:			
Dow-Jones Averages:			
Industrials	1,196.30	+ 25.05	+ 334.14
Transportation	527.24	– 2.70	+ 181.63
Utilities	127.17	+ 1.11	+ 12.58
65 Stocks	467.35	+ 5.34	+ 129.58
Standard and Poor's 500 Stocks	160.42	+ 1.67	+ 41.78
N.Y.S.E. Composite Index	92.15	+ .97	+ 23.90
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,740	+ 9,362	+ 36,212

* 46% Taxable equivalent 16.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/22/83	Week Ago
Overnight	8.63%	8.50%
1 month	9.00	8.75
3 month	9.19	8.75
6 month	9.31	9.06
1 year	9.44	9.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES New York Opening (4/22/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02051	48.76
Canada	.8137	1.2290
Denmark	.1147	8.7150
France	.1363	7.3350
Germany	.4086	2.4473
Italy	.0006861	1457.50
Japan	.004231	236.33
Mexico	.006579	152.00
Netherlands	.3629	2.7555
Switzerland	.4860	2.0578
U.K.	1.5475	.6462

Demand for residual fuel oil—heavy oil used primarily for electric power generation, industrial and commercial space heating, as ship fuel, and for various other industrial uses—posted the most dramatic decline since 1978, dropping by 44 per cent. For example, electric utilities have significantly reduced their dependence on oil. In 1978, petroleum represented nearly 17 per cent of all energy input, while in 1982 only 6.5 per cent. The use of coal expanded to 52 per cent from 43 per cent and hydropower to 15.1 per cent from 13.5 per cent.

Similarly, many manufacturers have installed dual burning furnaces (gas or oil), enabling them to switch from one fuel to the other based on the cost efficiency at any given time. As a result, consumption of residual fuel fell by nearly 21 per cent during the first quarter of 1983, year-over-year, although industrial production during this period fell by only 2.7 per cent. But the drop would have been even steeper were it not for the switch from natural gas back to oil in the industrial sector.

In sum, despite the current reduction in OPEC exports and the near-depletion of inventories, petroleum markets will continue to be weak as supplies are likely to exceed demand for most of 1983. Despite the expected pickup in the pace of business, ongoing conservation efforts by consumers and industry alike, combined with improved energy efficiency of automobiles, homes, manufacturing plants, utilities, residential and nonresidential buildings will continue to depress demand, thus keeping a lid on prices. H

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